Contingency Theory

- It is also known as Situational theory.
- The classical, behavioural, and quantitative approaches are considered Contingency theory states that there is no "one best way" to manage organisations universally in all situations.
- The appropriate management actions and approaches depend on/ contingent to the situations.
- Managers with a contingency view use a flexible approach, draw on a variety of theories and experiences, and evaluate many options as they solve problems.
- Each organisation is unique, each problem is unique, each decision is unique and, hence, the way of tackling every situation is also unique

Contingency Theory

- Contingency theory is an extension of Systems theory.
- It believes that organisation is an open system which continuously interacts with its external environment.
- While the internal environment consists of sub-systems or departments of the organisation, and the external environment consists of social, political, economic, legal, and technological factors that affects its working.
- According to this theory, managers take note of both these environments to solve various business problems.

Contingency Theory

- Historically, contingency theory has sought to formulate broad generalizations about the formal structures that are typically associated with or best fit the use of different technologies.
- The perspective originated with the work of Joan Woodward(1958), who argued that technologies directly determine differences in such organizational attributes as span of control, centralization of authority, and the formalization of rules and procedures.
- Fred Fiedler's contingency model focused on individual leadership.

Contingency Theory

- William Richard Scott describes contingency theory as: "The best way to organize depends on the **nature of the environment** to which the organisation must relate".
- Other researchers including Paul Lawrence, Jay Lorsch, and James D. Thompson were complementing to this statement and were more interested in the impact of contingency factors on **organizational structure**.
- Their structural contingency theory was the dominant paradigm of organizational structural theories for most of the 1970s.
- A major empirical test was furnished by Johannes M Pennings who examined the interaction between environmental uncertainty, organization structure and various aspects of performance.
- There are also contingency theories that relate to **decision making** (Vroom and Yetton, 1973).

Important Ideas of Contingency Theory

- There is no universal or one best way to manage
- The design of an organization and its subsystems must 'fit' with the environment
- Effective organizations not only have a proper 'fit' with the environment but also between its subsystems.
- The needs of an organization are better satisfied when it is properly designed and the management style is appropriate both to the tasks undertaken and the nature of the work group.

Limitations of Contingency Theory

- It is a complex Theory, which may not be applied easily.
- It has not given any meaningful solutions to different managerial problems.
- It can not be put to empirical testing in a concrete way.
- It suggests a reactive strategy in coping with environmental complexity.
- It is not a complete theory.